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Canada

Agricultural Situation

Canadian Wheat Board Proposes More Independence

2006

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Report Highlights:

On August 1, 2006, the Canadian Wheat Board (CWB) released a proposal to the Canadian government, entitled "Harvesting Opportunity," outlining potential reforms of the Board. The CWB reforms include independence from the Canadian government while keeping its monopsony, new electoral powers, the ability to invest in physical assets, and C\$1.5 from the Canadian federal government in lieu of federal guarantees on farmers payments and CWB borrowings. The reforms are unlikely to be enacted in the current political climate since the Conservative government supports creating a more open-market for wheat and barley growers and any changes to the CWB's current operating mandate require Parliamentary approval.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

On August 1, 2006, the Canadian Wheat Board (CWB) released a proposal to the Canadian government, entitled "Harvesting Opportunity", into the debate over the future of the Board and its single-desk position. If enacted, the proposed reforms would create a stronger and independent Board with a new internal electoral regime, a \$1.5 billion capital base, a free hand to invest in physical assets while retaining its single-desk position in the wheat and barley market. The Board stated its reforms would create a non-profit, "farmer owned", single desk corporation with a wholly-owned subsidiary to invest in the supply chain, value-added industries for agricultural products and financial services. CWB board chair, Ken Ritter, stated, "it significantly advances farmers' ability to control their own destiny...[and] takes advantage of our competitive strengths." A main feature of the proposal is the \$1.5 billion capitalization from the federal government allowing it acquire physical assets and thereby become more vertically integrated along the lines of private grain companies. Such capitalization would also provide the CWB the wherewithal to continue to borrow at reasonable rates to finance its operations and a financing alternative should export credit guarantees be further disciplined in the WTO. The Conservative government was unmoved by the proposed reforms and continue to voice its support for introducing a "dual market" system in the wheat and barley industry.

Canadian Wheat Board's Proposed Reforms

"Harvesting Opportunity", the result of a year of research and outside consultancy, envisions a CWB free of the 5 federally-appointed members of its board, including the President and CEO. It puts a heavy emphasis on the proposed new Board being entirely "farmer controlled" in contrast to private agricultural companies, which it contends does not have the welfare of the farmers at heart. The reformed board of directors would include ten elected farmers, as it is now, with four directors and the President appointed by the board to preside over the world's largest wheat and barley marketer.

The reforms outlined in the proposal would allow the CWB to own assets and partner with other players in the international agriculture market. In addition to gaining a free hand in partnering, "Harvesting Opportunity" would see the federal government giving the Board \$1.5 billion in start-up capital to cover the cost of guaranteeing farmers' payments and for investment in value-added industries, physical assets and financial services. Ritter remarked that the proposal "creates farmer power in grain handling and transportation and builds a realistic platform for farmer investment and benefit in value-added activities on the Prairies, in Canada and overseas." The CWB has expressed interest in vertical integration in the wheat and barley industry in the past, but the Canadian Wheat Board Act does not allow the CWB to own any physical assets, which the Board believes puts them at a severe disadvantage to private agricultural companies that own rail cars and grain elevators.

"Harvesting Opportunities" reiterates and emphasizes this point, "For farmers to successfully compete against large vertically-integrated multinationals over the long-term, their involvement in other aspects of the supply chain must be strengthened." The proposal points to rising supply chain costs as one of the causes of the downward trend in farmer income, and, if enacted, these reforms would correct this by allowing the organization to operate in other segments of the supply chain. Primary grain handling and elevation and grain handling and elevation at ports are listed as potential investments by a CWB subsidiary company, "Business Holding Ventures" (BHV). Other potential investments include value-added processing, development of infrastructure and financial and risk-management services for farmers.

According to a spring 2006 poll, western Canadian farmers support the idea of the CWB expanding its role into the supply chain. The results report that 73 percent of Western Canadian farmers support the idea of the Board investing in storage or handling facilities in the Prairies or Canadian ports.

Additionally, "Harvesting Opportunities" outlines the creation of a new electoral commission that would oversee the election of board members and resolve disputes. It also proposes a new oversight committee to ensure that the CWB does not operate in an anti-competitive manner, abuse regulatory powers for competitive advantage and engage in cross-subsidization between the CWB parent company and the BHV. The committee would be comprised of five members, four from the CWB's board of directors and one external member.

FAS Analyz` s

Although "Harvesting Opportunities" was presented as a proposal to the Canadian Government, it has met with opposition from the governing Conservatives. Agriculture Minister Chuck Strahl stated, upon the release of "Harvesting Opportunities", that "our position remains the same, we believe western grain farmers deserve the freedom to make their own marketing and transportation decisions...Western grain farmers should be able to participate voluntarily in the Canadian Wheat Board." The Conservative Party's consistent position on the CWB has been to introduce dual marketing in the wheat and barley market. Indeed, it has stated repeatedly that it plans to reform the CWB, thus fulfilling a campaign promise dear to its free trade oriented core Alberta base. To this end, the Agriculture Ministry has recently held meeting with those CWB members who would like to see a dual marketing system in order to strategize on reforming the CWB along those lines.

Both CWB Board of Directors' and Conservative plans to reform the CWB appear to be unlikely in the current political climate. Major CWB operating changes require changes to the Canadian Wheat Board Act, which must be approved by Parliament. Neither the Harper Government, which is governing from a minority position, nor those parties which have traditionally supported a single desk CWB, seem to be able to command the majority necessary to make the respective changes each side would like to see -- whether it be introduction of dual marketing as envisioned by the Conservatives or retention of the single desk, the \$1.5 capitalization fund, and the additional changes outlined in "Harvesting Opportunities."

The CWB's proposal, "Harvesting Opportunities" can be found at http://www.cwb.ca/en/topics/choice/pdf/Harvesting_Opportunity_August_2006.pdf

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